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No. 86-480

IN THE
SUPREME COURT OF THE UNITED STATES

October Term, 1986

DARBY DENTAL SUPPLY COMPANY, INC.,
DENTAL WHOLESALERS, INC., and
SPENCER MEADE DENTAL, INC.,
Petitioners

v.

PREMIER DENTAL PRODUCTS COMPANY,
Respondent

On Petition for Writ of Certiorari to the United States Court of Appeals for the Third Circuit

BRIEF FOR RESPONDENT IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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COUNTER-STATEMENT QUESTIONS PRESENTED

This case, still at the pretrial stage, involves a federal district court's interlocutory order which, pursuant to Section 526(a) of the Tariff Act of 1930 ("Genuine Goods Exclusion Act"), 19 U.S.A. §1526(a), preliminarily enjoins petitioners' unauthorized importation into and sale in the United States of the European-marketed version of a polyether rubber denture impression material distributed under the trademark IMPREGUM, for which respondent is the exclusive U.S. distributor and owner of the trademark by assignment from the West German manufacturer of IMPREGUM, and whether that order is proper and the unanimous decision of a panel of the Court of Appeals for the Third Circuit which affirmed it is correct, where it was found (a) that there was a proper and valid assignment of the U.S. trademark registration; (b) that respondent as the owner of the U.S. trademark registration was thereby entitled, under Section 526(a), to territorial protection against unauthorized importation; and (c) that petitioners' unauthorized importation irreparably harmed respondent's business goodwill and reputation.

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DESIGNATION OF CORPORATE RELATIONSHIPS

Pursuant to Rule 28.1 of the Rules of the Court, Respondent, Premier Dental Products Company, states that it has no parent or non-wholly-owned subsidiaries.

COUNTER-STATEMENT OF JURISDICTION

Jurisdiction in this case is conferred by 28 U.S.C. §1254(1).

The district court exercised subject matter jurisdiction over this action (a) under Sections 34, 35, 36, and 39 of the Lanham Act, 15 U.S.C. §§1116, 1117, 1118, and 1120, for violations of (i) Section 32(1) of the Lanham Act, 15 U.S.C. §1114(1); (ii) Section 42 of the Lanham Act, 15 U.S.C. §1124; and, (iii) Section 43 of the Lanham Act, 15 U.S.C. §1125; (b) under Sections 526(b) and (c) of the Tariff Act of 1930, *as amended*, 15 U.S.C. §§1526(b) and (c), for violations of Section 526(a) of the Tariff Act of 1930, *as amended*, 19 U.S.C. §1526(a); and (c) under the Judicial Code, 28 U.S.C. §§1332 and 1338, and under the principles of pendent jurisdiction for (i) unfair competition; and (ii) injury to business reputation and dilution of trademark, under the Pennsylvania Trademark Act, 43 Pa.C.S.A. §1124.

Jurisdiction by the Court of Appeals for the Third Circuit was conferred by 28 U.S.C. §1292(a)(1).

COUNTER-STATEMENT OF THE CASE

Respondent, Premier Dental Products Company ("Premier") — a 75-year-old nationwide distributor of dental products — is the exclusive United States distributor of a polyether rubber denture impression material produced by ESPE Fabrik Pharmazeutischer Praparate, GmbH ("ESPE"), an unaffiliated West German manufacturer, and distributed here under the federally registered trademark IMPREGUM and, since June 20, 1984, is the owner of the U.S. trademark registration for IMPREGUM.[1] (2a; 31a). The trademark is as well reg-

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1. References to the Petition for a Writ of Certiorari are abbreviated 'Pet.' Page references to the Appendix to Petition for Certiorari are given in the form '_____a' with the page number preceding.

istered with the U.S. Customs Service in accordance with the agency's regulations, 19 C.F.R. §133.1 *et seq.* (32a). Based on Premier's registration, the Customs Service ordered that "no imported articles bearing, copying or simulating. . .[the IMPREGUM trademark] may be admitted entry" and "no merchandise bearing genuine trademarks applied by the foreign manufacturer may be imported unless consigned to, or for the account of, or authorized by," Premier. (A78, 158).

Petitioners are closely affiliated large mail-order dental product suppliers. (2a; 32a). They sell approximately 30 different brands of impression material, including IMPREGUM, from among approximately 40 brands marketed in the United States. (A327-330, 345-346, 373-375, 412-413, 415, 422-423, 425, 429, 431, 437, 815, 819, 820). Between 1980 and 1982, they purchased from Premier, either directly or indirectly, IMPREGUM and advertised it in their mail-order catalogs to be "*Premier IMPREGUM*". (A33-34, 820, 821). They used the Premier trade name as well in association with other dental products they purchased from respondent and carried in their catalogs. In or about 1983, petitioners began to import into and sell in the United States the European-marketed version of IMPREGUM. (2a; 32a).

On March 29, 1985, Premier filed this action, in part, to enjoin petitioners from causing to be imported into and distributed in the United States, European IMPREGUM on the grounds that petitioners' unauthorized importation violated its exclusive rights to the trademark, under Section 526(a) of the Tariff Act of 1930 ("Genuine Goods Exclusion Act"), 19 U.S.C. §1526(a).

NOTES *(Continued)*

Page references to the Appendix to Brief for Respondent in Opposition are given in the form 'Resp. App. _____' with the page number following. Page references to the Joint Appendix in the Court of Appeals are given in the form 'A_____' with page number following. Emphasis is supplied throughout unless otherwise noted.

A. The Premier IMPREGUM Exclusive Distributorship.

Since 1952, Premier has acted as the exclusive distributor of ESPE dental products.[2] It is because of Premier's repeated marketing and sales successes with those products, that ESPE turned to Premier in 1974, to develop and market IMPREGUM, which had not heretofore been distributed in the United States.[3](A116-117).

The IMPREGUM Exclusive Distributorship Agreement. ESPE's 1974 agreement with Premier gives respondent the exclusive distribution rights for IMPREGUM in the United States. (2a; 29a). Its rights are exclusive even as to ESPE. (A116, 151-153, 70-71, 190). However, to assure that Premier performed to give IMPREGUM the widest distribution possible, ESPE reserved the right to cancel the exclusive distributorship if Premier's sales volume in any period of two consecutive calendar years was less than the volume of IMPREGUM's single maximum sales year. (2a; 29a; A151, 73-75, 234-235, 272).

Premier's IMPREGUM Direct Marketing Program. In the 10-year period from 1974 through 1984, Premier made IMPREGUM into the leading selling dental impression material in the United States. By 1984, Premier's IMPREGUM sales constituted 20% of the total nationwide retail sales for impression material. (A117, 244-245). The uncontroverted evidence shows it was IMPREGUM's association with Premier — which had a long established reputation in the trade — that convinced dentists to try the then unknown product and ESPE could not have done so itself without Premier.

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2. ESPE does not have or ever had any ownership or shareholder interest in Premier. Premier does not have or did it ever have ownership or shareholder interest in ESPE. (A116, 186).

3. ESPE failed in its attempts independently to market dental product lines in America under the aegis of its sales subsidiary, ESPE-USA. The company was later dissolved and ESPE turned to Premier to assist it to market such lines. (A192-197, 199-202, 671-678).

(A99, 276). Respondent's chairman testified that "the reason IMPREGUM made such a big hit in the United States besides being a quality product was the name Premier, which was attached to it right from the beginning. It was the word Premier that would get doctors to even try the material when it was an unknown brand. Proof is when ESPE tried to sell additional products in the American market place, without the word Premier. . .all they did was lose money." (A276).

IMPREGUM's substantial sales success and market share penetration were the direct result of the unique marketing program Premier implemented at a cost to it in excess of *$13.2 million*. (A117-118, 247, 255-256). From the program's inception Premier detailed its technically trained and oriented sales staff to its dental dealers — and continues to do so. They, together with its dental dealers' representatives, traveled from dentist-to-dentist to promote and demonstrate IMPREGUM, to explain its features and to educate and physically instruct the dentist directly in the impression material's use and application. They demonstrated and trained as well dental assistants and dental laboratory staffs in its use. (A114, 117-118, 76, 211-213, 656-662). IMPREGUM is such that a dentist must be initially instructed in its correct use, mixing and proportion in order to afford the dentist an accurate impression for model-making.

Premier also promoted IMPREGUM extensively at approximately 60 dental conventions each year — and continues to do so — demonstrating application techniques to dentists. In addition, Premier's sales personnel regularly attend dental dealers' clinics and conventions to promote IMPREGUM and instruct the dental sales trade in its variety of uses and applications. (28a; 30a; 35a; A118, 76, 656-668, 686-701). They also visit dental colleges and dental assistant schools and provide the same instruction to faculty and students as they do to the

trade. (A118, 76, 217-218, 247-248, 257-258, 656-662). Premier's promotion of IMPREGUM remains as intense as it was from the start. (A658).

Premier established — and continues to maintain — a customer service department to handle problems dentists have relating to the use and application of IMPREGUM. (35a; A211-213, 214-216). To this end, Premier maintains a toll-free "800" telephone number. (35a; A87). The problems that arise are associated with the dentist's application technique, rather than the product itself and, therefore, require that direct hands-on instruction be given to the dentist by Premier's technical staff. (A87-88, 660-662).

Premier's IMPREGUM Packaging. Since 1974, Premier has applied its trade name to all cartons containing IMPREGUM it sells and distributes. (4a; A286-288). The Premier trade name was, likewise, applied from the start to labels contained on IMPREGUM adhesive bottles. (4a; A118, 206-208, 160-162). The packaging for the American market was purposefully designed to give prominence to Premier's trade name and ESPE's name is displaced and relegated to lesser status — obviously because Premier's name has greater recognition than that of ESPE in the American market. On the other hand, European-marketed IMPREGUM gives prominence to the ESPE trade name. Moreover, the packaging and printed material for Premier IMPREGUM are entirely in English, whereas the European-marketed version contains German and English markings. These identifying markings immediately distinguish Premier's IMPREGUM from the European version. (A766).

The difference between the two, was further accentuated in 1983, at which time Premier started to apply its trade name to IMPREGUM tubes. (4a; 33a-34a; A118, 207, 220-221, 95-96, 176). The tube design is tailored for the United States market and is clearly distinguishable from the tube design for that of European IMPREGUM. (4a; A79-82, 160-162).

Not only do packaging and design serve to distance the two from one another, but the instructions which accompany each product do. Premier formulated and developed its own set of instructions for use with IMPREGUM in the United States. It developed its instructions because it found those of ESPE were inadequate for American dentists. ESPE's instructions are vague, clumsy translations of the German language version. Moreover, ESPE-supplied instructions do not provide guidance for either proper mixing or setting. However, Premier's instructions do. (A651-653).

In addition, although the European version states that it complies with the packaging and labeling regulations of the American Dental Association ("ADA"), Specification No. 3, §§5.2.1-.2, it does not. The European-marketed version does not contain batch and coding data required by the ADA (A123, 141, 80-84, 669-670); that distributed by Premier does.

Petitioners admit to these differences. (A765-766).

Premier's Enormous Sales Success. IMPREGUM has become an essential part of Premier's business on which Premier has grown and expanded. It is Premier's single most important product. (31a; A119, 71-72). Its sales currently account for 30% of the company's total sales revenue. (*Id*). Its enormous success has led the dental trade to associate IMPREGUM directly with Premier (A99, 276) and, in some cases, identify respondent to be its manufacturer. (A858-859, 865, 884, 890, 898, 907, 912, 914).

B. Petitioners' Importation Of The European-Marketed Version Of IMPREGUM.

Obviously intending to benefit by Premier's successful marketing of IMPREGUM, petitioners, in 1982, almost *doubled* over that of the previous year their purchases from Premier of IMPREGUM. Premier's sales

to them climbed from *$642,012 to $1,071,290*. (2a; 32a-33a; A120, 317). However, after 1982, its sales plummeted. The precipitous decline is directly attributable to petitioners' importation of the European-marketed version. In 21 months from January, 1983, through October, 1984, petitioners purchased only $179,509 of IMPREGUM, compared to purchases of $1,071,290 in the 12 previous months. In 1983, their purchases declined to $164,028. By the third quarter of 1983, they had dropped to $14,479. (A121).

Expressed in terms of Premier's total IMPREGUM business, the consequences are dramatic. In 1981, petitioners' business constituted *9.9%* of Premier's total IMPREGUM business. (2a; 32a-33a; A121-122). In 1982, their share of that increased to *15.0%*. In 1983, however, their business declined by *$906,255* over the previous year and constituted only *2.4%* of Premier's IMPREGUM business. In the first eleven months of 1984, their business dropped so that it represented only *0.26%*.

Nonetheless, in 1984, petitioners generated over *$1.8 million* in sales revenues attributable to IMPREGUM, obviously derived almost exclusively from the sale of European-marketed IMPREGUM which they purchased from suppliers abroad — other than ESPE. (A179, 741, 759-760).

In the same period, Premier's overall IMPREGUM sales volume, likewise, drastically declined. This was attributable not only to petitioners' importation of the European-marketed IMPREGUM, but to that by other Premier customers which followed petitioners' path overseas. In 1983, Premier's IMPREGUM sales volume dropped by *$303,815*, from $7.1 million in 1981, to $6.8 million in 1983. In 1984, it dropped again. In the eleven months from January, 1984, through November, 1984, IMPREGUM sales were down by *10.3%* (or $639,524) compared to the same eleven-month period in 1983. Premier's 1984 overall IMPREGUM sales compared

with the same period for 1982 show a 20.28% drop. (A121).

C. Proceedings In The District Court.

On July 16, 1985, the district court enjoined petitioners' importation and sale of European-marketed IMPREGUM (25a-39a), with the *caveat* that "Premier shall sell IMPREGUM to defendants [petitioners] on the same terms and conditions as Premier's other customers."[4] (38a).

The district court concluded that the assignment of the U.S. trademark registration was proper and valid and that Premier owned the U.S. trademark registration for IMPREGUM. The court found that the record evidence clearly showed that: "Premier has the interest in the goodwill associated with IMPREGUM that is required in a transfer of the trademark" (37a); "Premier has developed a goodwill separate from that of ESPE . . . and is identified in the trade as the source through which IMPREGUM is obtained" (36a); "the goodwill of the trademark IMPREGUM in the United States has been transferred to Premier" (37a); "the assignment did not simply transfer the right to sue, it gave Premier legal title to the goodwill that it has used and the right to protect the exclusive distributorship" (*Id.*); the assignment was not "sham" and the "limitations in the assignment did not invalidate it" (*Id.*); and, moreover, "this transfer of

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4. By a July 23, 1985 Order, the district court amended the "Memorandum of Decision" to reflect minor changes in text. The Memorandum of Decision was amended as follows: "1) Page 9 [35a], line 27: 'Defendants [petitioners] argue that since ESPE could not prevent Premier from' should read: 'Defendants [petitioners] argue that since ESPE could not prevent defendants [petitioners] from'; 2) Page 12 [38a], line 7: '9. The harm that will result to plaintiff [respondent] as the result of the' should read '9. The harm that will result to defendants [petitioners] as the result of the'."

rights to an exclusive distributor is not an unusual practice and such a distributor has sufficient interest to uphold the transfer" (*Id.*). The court held that, therefore, under Section 526(a), "Premier has the right to prevent the importation of goods bearing that mark [IMPREGUM] by other parties" (36a).

The district court recognized that "defendants [petitioners] would be trading on the goodwill established by the plaintiff [respondent]" by their unauthorized importation, but nonetheless, held this alone to be insufficient to constitute irreparable harm. (34a). However, the court found that Premier had clearly shown it would suffer irreparable injury in the absence of preliminary relief, because such importation directly threatened it with loss of its exclusive distributorship. The district court found (35a): "Premier's contract with ESPE provides that if Premier's sales dip below a certain point the distributorship can be terminated. If defendants [petitioners] and other retail sellers of IMPREGUM encouraged by defendants' actions import and market IMPREGUM, bypassing Premier, Premier will lose its exclusive distributorship rights. This would constitute irreparable harm."

Finally, the district court balanced the equities and public interest and found that they weighed in favor of granting injunctive relief. There was "no evidence in the record" to show that the public interest would in any way be harmed. (38a). Further, to eliminate any possibility of such harm and the possibility as well of harm to petitioners, the district court required Premier "to make available to the defendants [petitioners] a sufficient supply of IMPREGUM to satisfy their requirements at a price at which IMPREGUM is normally sold to Premier's other customers." (*Id*). Petitioners, thereafter, noticed an appeal from the interlocutory order. (A1).

D. Proceedings In The Court Of Appeals.

By an opinion filed on June 24, 1986, the United States Court of Appeals for the Third Circuit affirmed the district court's order. (1a-23a). The court rejected the petitioners' assertion — as did the district court — that the assignment was "sham" because ESPE received nominal consideration and retained quality control, manufacturing and reassignment rights over IMPREGUM. (11a-12a). The Third Circuit held that (12a-13a):

> "It is a well established principle both of contract law and of trademark law that limitations in an otherwise valid assignment do not invalidate it. [Citations omitted]. The assignment between ESPE and Premier is therefore not invalidated by virtue of the limitations it imposes on Premier's rights over the trademark."

The court then concluded — as the district court did — that Premier was entitled to enjoin Petitioners' unauthorized importation on the basis that Premier (1) was IMPREGUM's exclusive U.S. distributor, (2) owned and registered the trademark, (3) was independent of ESPE, and as well (4) had an established separate and independent goodwill in IMPREGUM which was entitled to protection. (18a).

However, the Court of Appeals differed with the district court over the latter's basis for finding irreparable harm, but, nonetheless, found Premier's alternative ground — which the district court did not adopt — sufficient to show irreparable harm and, thereby, support the district court's order. (20a-21a). The court held that the presence of unauthorized IMPREGUM in the United States market, notwithstanding that it is identical in composition to that which Premier distributes, constitutes irreparable harm because unauthorized importation permits petitioners to trade on Premier's business and goodwill and inevitably injures its reputation as the exclusive domestic source of IMPREGUM. (19a-21a).

The court concluded that "the relevant issue is not the ultimate origin of the materials, which is ESPE, but Premier's reputation as the exclusive American source of IMPREGUM" (20a-21a), and affirmed the district court's order enjoining any further unauthorized importation and sale of European-marketed IMPREGUM by petitioners.

REASONS FOR DENYING THE PETITION

Petitioners present three questions for interlocutory review. None of which warrant review by this Court. The district court found — which the Court of Appeals affirmed — that the assignment, made *albeit* with certain limitations, is proper and valid and, therefore, respondent has a clear legal right under Section 526(a) of the Tariff Act of 1930, to enjoin unauthorized importation of European-marketed IMPREGUM. Moreover, respondent, on the record it made in the district court, clearly demonstrated that its business reputation and goodwill associated with the mark would be irreparably injured if petitioners were permitted to sell the unauthorized European version alongside that which Premier marketed.

The district court and the Court of Appeals applied correct and settled law. The courts did not depart from the accepted or usual course of judicial proceedings in deciding this controversy. There is no conflict between the opinion of the Third Circuit in this case and the decisions of any other circuit court or of this Court. Petitioners merely seek *de novo* review of the district court's findings that there existed sufficient factual evidence to support the issuance of a preliminary injunction. The petition should, therefore, be denied.

I. INTERLOCUTORY REVIEW BY THIS COURT IS NOT WARRANTED BECAUSE THERE EXISTS NO CONFLICT AMONG THE CIRCUIT COURTS OF APPEAL OVER WHETHER THE AMERICAN OWNER OF A U.S. TRADEMARK REGISTRATION IS ENTITLED TO TERRITORIAL PROTECTION AGAINST UNAUTHORIZED IMPORTATION — IT CLEARLY IS ENTITLED TO SUCH PROTECTION.

Petitioners make the novel argument that Premier is not entitled to territorial protection against unauthorized importation, because it obtained ownership of the IMPREGUM registration by assignment. (Pet. at 21). They argue — citing no supporting authority — that this did not vest Premier with ownership rights of the extent to which they contend is required by Section 526(a) of the Tariff Act of 1930, 19 U.S.C. §1526(a).

Their argument is completely at odds with the concept long engrained in trademark law that full and complete ownership rights are transferred by assignment of the registration. Section 10 of the Lanham Act, 15 U.S.C. §1060, makes specific provision for this form of trademark ownership and authorizes this type of ownership transfer. Moreover, where the trademark assigned is incontestable — which it is here (29a) — ownership of the registration is "conclusive evidence of the registrant's exclusive right to use the registered mark in commerce" (15 U.S.C. §1115(b)), a significant feature of ownership which, of course, petitioners ignore. Petitioners, likewise, overlook that Premier's exclusive distribution rights entitle it without qualification to register the mark as its own. *Lalanne v. F.R. Arnold & Co.*, 39 F.2d 269, 270-271 (2d Cir. 1930); *In re Geo. J. Ball, Inc.*, 153 U.S.P.Q. 426, 427 (T.T.A.B. 1967). That Premier did not "purchase" the trademark is of no moment (Pet. at 12), because assignment is not susceptible to challenge on this ground. *Roger & Gallet v. Janmarie, Inc.*, 245 F.2d 505, 511 (C.C.P.A. 1957).

ESPE transferred to Premier "all right, title and interest in and to the U.S. trademark 'IMPREGUM' " (3a), including its "incontestability" status. The Third Circuit (8a-12a) and district court (35a-37a) correctly found the assignment, along with the independent goodwill respondent built up over the decade, sufficient to transfer to Premier full and complete ownership interest in the U.S. trademark registration and thereby entitle it to Section 526 territorial protection; and, in almost identical cases, other courts as well have. *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923); *Model Rectifier Corp. v. Takachiho International, Inc.*, 220 U.S.P.Q. 508 (C.D. Cal. 1982), *aff'd.*, 221 U.S.P.Q. 502 (9th Cir. 1983); *International Armament Corp. v. Marta Manurhin International, Inc.*, 630 F. Supp. 741 (E.D. Va. 1986); *Weil Ceramics & Glass, Inc. v. Dash*, 618 F. Supp. 700 (D.N.J. 1985); *Selchow & Righter Co. v. Goldex Corp.*, 612 F. Supp. 19 (S.D. Fla. 1985). Obviously, petitioners' argument overlooks Section 526's design to protect the American owner's business goodwill and reputation associated with the mark.[5]

Section 526(a) of the Tariff Act of 1930, 19 U.S.C. §1526(a) (originally enacted as Section 526 of the Tariff Act of September 21, 1922), provides that "it shall be unlawful to import any merchandise of foreign manufacture" bearing a trademark owned by a corporation "created or organized within . . . the United States" without the consent of the United States corporation, if

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5. Petitioners complain that if the district court's order is upheld they will be required to purchase IMPREGUM here at a higher cost than they would if they were permitted to buy abroad European-marketed IMPREGUM. Needless to say, their businesses do not require them to sell IMPREGUM. There are over *40* competing named-brands of impression material available to them, besides IMPREGUM. (A865, 868, 884, 885, 890, 891, 892, 896, 900, 907, 912, 914) They, for that matter, sell approximately 30 different brands. By no stretch of the imagination can they claim they are harmed if they do not sell the European-marked version.

the trademark is registered with the Patent and Trademark Office and a certificate of registration is filed with the Secretary of the Treasury (actually, by delegation, the Customs Service). (40a). The United States corporation also must be a United States domiciliary.[6]

Articles imported into the United States in violation of paragraph (a) are subject to seizure and forfeiture by the Customs Service. §526(b). Paragraph (c) states that "any person dealing in any such merchandise may be enjoined from dealing therein within the United States. The paragraph as well provides for relief by way of trademark infringement damages and injunctions, which may require re-export of the articles or obliteration of the trademark. (40a-41a).

There are only two statutory exceptions to the rule of Section 526(a). First, subsection (d) (referred to in subsection (a)), which was added in 1978, makes an exception for a small quantity of trademarked articles that are brought into this country for personal use or consumption. (41a-42a). Second, the Revised Organic Act of the Virgin Islands provides that Section 526 does not apply to importation into the United States Virgin Islands of "genuine foreign merchandise bearing a genuine foreign trademark, but shall remain applicable to importations of such merchandise from the Virgin Islands into the United States or its possessions. . . ." 48 U.S.C. §1643.

Section 526's enactment was precipitated by a ruling of the United States Court of Appeals for the Second Circuit which denied an American trademark owner territorial protection against an importer that brought in articles from abroad bearing the trademark of the foreign manufacturer from which the American owner acquired its U.S. trademark rights. *A. Bourjois & Co. v. Katzel*,

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6. United States copyright (17 U.S.C. §§601-603) and patent (35 U.S.C. §271) laws similarly prohibit the unauthorized importation of lawfully produced articles where it conflicts with an American citizen's copyright or patent under these laws. *Hearst Corp. v. Stark*, 639 F. Supp. 970 (N.D.Cal. 1986).

275 F. 539 (2d Cir. 1921). The Second Circuit's decision was premised on a line of cases in that Circuit which accepted the limited notion that a trademark functioned primarily to protect the public from the evils assumed inherent in imitation goods passed-off as the genuine article, rather than to protect the U.S. trademark owner's business from a species of unfair competition.[7] *Apollinaris Co. v. Scherer*, 27 F. 18 (C.C.S.D.N.Y. 1886); *Russia Cement Co. v. Frauenhar*, 133 F. 518 (2d Cir. 1904); *Fred Gretsch Mfg. Co. v. Schoening*, 238 F. 780 (2d Cir. 1916); *Hunyadi Janos Corporation v. Stoeger*, 285 F. 861 (2d Cir. 1922). The court focused on the fact that the articles sold by both parties came from the identical foreign manufacturing source and carried the same manufacturer's mark. Completely ignored was the possible existence of a separate American goodwill associated with the mark belonging to the American owner of the trademark, typically the exclusive U.S. distributor for the foreign manufacturer's products. Circuit Judge Hough in his dissenting opinion, in *Katzel*, pointedly brought this out (275 F. at 543-544):

> "*The decision in this case seems to me to lean the wrong way, because in my opinion a trade-mark is primarily a protection to the owner's business.* It is attached to the business, is a part of it, and cannot be detached therefrom; there being no such thing as the transfer of a trade-mark in gross. If this be true,

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7. The court did recognize that the American owner or exclusive distributor could enjoin importation done directly by the foreign manufacturer from which it obtained trademark ownership or exclusive distribution rights, or done by it collusively with a third party to circumvent the American citizen's U.S. rights. However, under no circumstances was it protected against importation by third persons of the genuine trademarked article. *Apollinaris Co. v. Scherer*, 27 F. 18, 20-21 (C.C.S.D. N.Y. 1886); *A. Bourjois & Co. v. Katzel*, 275 F. 539, 541-542 (2d Cir. 1921); *Hunyadi Janos Corporation v. Stoeger*, 285 F.2d 861, 864 (2d Cir. 1922).

> it makes no difference whether the plaintiff's business grew out of an agency for another, provided only that it be shown that it is an honest business and belongs to the person who attached, and (perhaps) duly registered the trade-mark, which describes the product of that business.
>
> This plaintiff made a business in Java powder. It is an honest business, and whatever rights the French manufacturer had in the United States became the rights of the plaintiff. If, therefore, the primary function of the trade-mark is to protect this plaintiff's business in his own country, it makes no difference at all that the genuine French article is the thing offered by the defendant. That genuine article has become an infringement because the business of dealing in that article within the United States is the plaintiff's business."

This Court reversed the Second Circuit's decision. *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923). Justice Holmes in delivering the opinion of the Court which subscribed to the dissenting opinion by Circuit Judge Hough, stated (260 U.S. at 692):

> "It is said that the trade-mark here is that of the French house and truly indicates the origin of the goods. But that is not accurate. It is the trade-mark of the plaintiff only in the United States and indicates in law, and, it is found, by public understanding, that the goods come from the plaintiff although not made by it. It was sold and could only be sold with the goodwill of the business that the plaintiff bought. Eiseman v. Schiffer, 157 Fed. 473. It stakes the reputation of the plaintiff upon the character of the goods."

The enactment by Congress of Section 526, moreover, made it absolutely clear that sharing a common foreign manufacturing origin with the American trademark

owner's articles did not make other similarly or identically marked articles purchased abroad and brought into the United States any less infringing. Without any limiting language, Congress stated, in Section 526(a), that "any merchandise of foreign manufacture" bearing a trademark owned by an American company could be denied entry, on the obvious ground that the sale of the article by someone not the American owner harmed the goodwill and infringed on the U.S. owner's rights. Contemporary judicial assessments of Congress' intent are found in *Coty, Inc. v. LeBlume Import Co.*, 292 F. 264, 269 (S.D.N.Y. 1923), *aff'd*, 293 F. 344 (2d Cir. 1923), and *Sturges v. Clarke D. Pease, Inc.*, 48 F.2d 1035 (2d Cir. 1931).

In *Coty*, Judge Learned Hand found that Congress' enactment of Section 526(a) supplied "the *casus omissus*, supposedly to exist in Section 27 of the Act of 1905 . . . because of the decision of the Circuit Court of Appeals in *Bourjois v. Katzel*."[8] 292 F. at 269. In *Sturges*, the plaintiff sought to import for personal use[9] a second-hand Hispano-Suiza automobile which bore the trademark "H-S." The U.S. rights in that trademark had been acquired by Pease who refused to allow the "genuine" article to be imported. Judge Augustus Hand rejected the notion — likewise advanced by petitioners here —

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8. Later, this Court ruled that the "copy or simulate" language of Section 27, the identical predecessor to Section 42 of the Lanham Act, 15 U.S.C. §1124, which prohibits importation if the goods bear a trademark that "shall copy or simulate" a registered trademark, covers as well a *genuine identical trademark*. *A. Bourjois & Co. v. Aldridge*, 263 U.S. 675 (1923), *answering in the affirmative questions certified at* 292 F. 1013 (2d Cir. 1922).

9. In 1978, Congress amended Section 526, and added subparagraph (d) to make exception and allow for the importation of a limited quantity of genuine trademarked goods accompanying a person who intends them for personal use or consumption and not for resale. The amendment does not diminish the American owner's rights to control the importation of goods bearing its trademark designated for *commercial* resale.

that Section 526 should be narrowly construed. Judge Hand found that "the object of this drastic statute is to protect the [U.S.] owner of a foreign trade-mark from competition in respect to goods bearing the mark." 48 F.2d at 1037. To permit anyone to import goods bearing a foreign trademark in which an American company had acquired the U.S. rights directly interferes with the American owner's "right to control the use of the mark in this country which was the apparent purpose of the congressional legislation." *Id.*

The force and effect of Section 526(a) has not diminished over time. Federal courts repeatedly apply Section 526(a) to give territorial protection to American trademark owners against unauthorized importations — such as that in this case. *United States v. Eighty-Nine (89) Bottles of "Eau de Joy,"* 797 F.2d 767 (9th Cir. 1986) ("Jean Patou" perfume products); *Model Rectifier Corp. v. Takachiho International, Inc.*, 220 U.S.P.Q. 508 (C.D. Cal. 1982), *aff'd.*, 221 U.S.P.Q. 502 (9th Cir. 1983) ("Tamiya" brand plastic car models); *International Armament Corp. v. Matra Manurhin International, Inc.*, 630 F. Supp. 741 (E.D. Va. 1986) ("Walther" pistols); *Weil Ceramics & Glass, Inc. v. Dash*, 618 F. Supp. 700 (D.N.J. 1985) ("Lladro" porcelain and ceramic vases, statuettes, and figurines"); *Selchow & Righter Co. v. Goldex Corp.*, 612 F. Supp. 19 (S.D. Fla. 1985) ("Trivial Pursuit" games); *Osawa & Co. v. B & H Photo*, 589 F. Supp. 1163 (S.D.N.Y. 1984) ("Mamiya" camera equipment).

It is now commonly accepted that an exclusive distributor-assignee, who is willing to make a substantial investment in creating an American market for a foreign-made product — which Premier clearly demonstrated it did — should be protected against surreptitious importation by third parties which hope to benefit from its domestic goodwill and reputation. The Third Circuit and

district court recognized this established principle and correctly applied it in this case to enjoin petitioners' unauthorized importation.

There does not exist any conflict among the circuit courts of appeal regarding Section 526's intendment. The circuit courts to have ruled on the issue unanimously recognize — as does the Third Circuit (15a-17a) — that Congress intended to make genuine goods excludable under Section 526 unless the American trademark owner consents to importation. *United States v. Eighty-Nine (89) Bottles of "Eau de Joy,"* 797 F.2d 767, 770 (9th Cir. 1986); *Olympus Corp. v. United States*, 792 F.2d 315, 319-320 (2d Cir. 1986); *Coalition to Preserve the Integrity of American Trademarks v. United States*, 790 F.2d 903 (D.C. Cir. 1986) ("*COPIAT*"); *Vivitar Corp. v. United States*, 761 F.2d 1552, 1561-1565, 1568-1570 (Fed.Cir. 1985), *cert. denied;* ____U.S. ____, 106 S.Ct. 791 (1986).

Where the circuit courts are in conflict is over the validity of U.S. Customs Service regulation 19 C.F.R. §133.21. (43a-44a). The Customs Service, for internal administrative purposes and budgetary reasons, will not initiate on its own seizure of unauthorized imported articles where the foreign and U.S. trademark owners are parent and subsidiary companies or otherwise are subject to common ownership or control. In this instance, they permit the unauthorized articles to pass through Customs. However, the regulations do not preclude the trademark owner from pursuing private remedies under Section 526(a) in federal district court against unauthorized importation.[10] The regulation sets absolutely no judicial limits on this right. *Olympus Corp. v. United*

10. Legislation recently introduced in the Senate of the United States would amend Section 526 to incorporate regulation 19 C.F.R. §133.21 and entirely restrict — not just at the customs entry level — its application where there exists a parent-subsidiary relationship or common ownership or control. Resp. App. 1-3.

States, 792 F.2d 315, 320 (2d Cir. 1986); *Vivitar Corp. v. United States*, 761 F.2d 1552, 1569-1570 (Fed.Cir. 1985), *cert. denied*, ____U.S. ____, 106 S.Ct. 791 (1986).

The lawfulness of the regulation has been questioned because Section 526(a) unqualifiedly states that it is unlawful to import "any merchandise of foreign manufacture" and does not condition relief on the relationship between the foreign markholder and its U.S. owner. The Second Circuit, in *Olympus*, and the Federal Circuit, in *Vivitar*, sustained the regulation, but on the other hand the District of Columbia Circuit, in *COPIAT*, did not. However, the validity of the regulation is not challenged in this case; nor is it otherwise here of any issue or import. Premier applied for and received an order from the Customs Service which blocks unauthorized importation of IMPREGUM. (31a-32a). It would not otherwise have received the exclusion order from the Customs Service had it not established that it was separate from and independent of ESPE.

The Third Circuit decision is correct and analysis sound and follows that of other circuit and district courts to have applied Section 526. The petition on this point should be denied.

II. INTERLOCUTORY REVIEW BY THIS COURT IS NOT WARRANTED BECAUSE IT IS SETTLED LAW THAT UNAUTHORIZED USE OF A TRADEMARK IRREPARABLY HARMS THE OWNER'S BUSINESS GOODWILL AND REPUTATION.

The unauthorized importation of articles bearing the trademark to which the American owner acquired the U.S. rights directly interferes with its "right to control use of the mark in this country" to its irreparable harm. *Sturges v. Clarke D. Pease, Inc.*, 48 F.2d 1035, 1037 (2d Cir. 1931). It inevitably threatens injury to the economic value of the domestic goodwill and reputation associated with the mark. *Scandia Belting Co. v. Asbestos & Rubber*

Works, 257 F: 937, 962 (2d Cir. 1919), *cert. denied*, 250 U.S. 644 (1919); *Weil Ceramics & Glass, Inc. v. Dash*, 618 F. Supp. 700, 704-706 (D.N.J. 1985); *Osawa & Co. v. B & H Photo*, 589 F. Supp. 1163, 1171-1174 (S.D.N.Y. 1984); W.J. Derenberg, "Territorial Scope and Situs of Trademarks And Good Will," 47 *Va. L. Rev.* 733 (1961); 1 J.T. McCarthy, *Trademarks and Unfair Competition* §16:16, at 763 (2d ed. 1984).

The Third Circuit correctly applied this principle and appropriately held — adopting the alternate ground Premier advanced in the district court — that importation and distribution of IMPREGUM by others not associated with Premier "must inevitably injure Premier's reputation as the exclusive domestic source of IMPREGUM" and directly interfere with its right to control use of the IMPREGUM mark in the United States.[11] (19a-21a); *Model Rectifier Corp. v. Takachiho International, Inc.*, 220 U.S.P.Q. 508, 510 (C.D. Cal. 1982), *aff'd.*, 221 U.S.P.Q. 502 (9th Cir. 1983).

Petitioners attempt to divine a conflict where none exists. The Second Circuit decision, in *Bell & Howell:Mamiya Co. v. Masel Supply Co.*, 719 F.2d 42 (2d Cir. 1983), which they argue conflicts with that of the

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11. Petitioners as well argue that the Court of Appeals' ground for finding irreparable harm is improper because it was not developed in the district court. On the contrary, its factual basis was laid in the district court and was as well raised and argued before the court, but the court declined to hold that it alone was sufficient to demonstrate such harm to exist. (34a; 19a-20a). The Third Circuit's consideration of this ground as an alternate basis to affirm the district court's preliminary injunction is entirely appropriate and correct. The remand of the nature for which petitioners argue would only be proper if the question was not adequately presented prior to appeal, the parties did not have a full opportunity to develop the relevant facts, and thorough briefing on the point was incapable. *United States v. New York Telephone Co.*, 434 U.S. 159, 166 n.8 (1977); *Dandridge v. Williams*, 397 U.S. 471, 475 n.6 (1970). The record clearly demonstrates otherwise.

Third Circuit, in *Premier*, is inapposite. (Pet. at 24). Although it is correct that the *Masel* court held that the American distributor — owned almost entirely by its parent worldwide distributor — failed to demonstrate irreparable harm, the Second Circuit found so however, because the American distributor did not show confusion to exist as to the origin of the unauthorized articles or injury likely to occur by importation of inferior articles later sold under the trademark. The court's finding was dictated by the obvious reason the American distributor did not establish that it had in the United States a factually distinct reputation and goodwill separate and apart from that of its parent foreign distributor which warranted Section 526 protection. There was no basis to find other than that the articles emanated from a single international entity. 719 F.2d at 44, 46. If it had been shown otherwise, irreparable harm would have inevitably followed from such unauthorized use.

In *Premier*, on the other hand, the Third Circuit and district court found a factually distinct goodwill to exist in the American distributor to warrant protection. Of significant importance were that Premier was separate and distinct from ESPE, acted independently of ESPE, "developed a goodwill separate from that of ESPE," and "is identified in the trade as the source through which IMPREGUM is obtained." (20a-21a). This, of course, the American distributor in *Masel*, did not show.

In later litigation, the American distributor in *Masel* did establish "a separate goodwill factually independent from that of the mark originator" and "proved in abundance" damage to its reputation and injury to its goodwill sufficient to support a basis to find irreparable harm and to enjoin unauthorized importation. *Osawa & Company v. B & H Photo*, 589 F. Supp. 1163, 1168-1170, 1174 (S.D.N.Y. 1984); *see also Weil Ceramics & Glass, Inc. v. Dash*, 618 F. Supp. 700 (D.N.J. 1985).

Subsequent decisions by the Second Circuit clearly show that on this issue the circuit court is in line with the Third Circuit. *See Church of Scientology International v. Elmira Mission*, 794 F.2d 38 (2d Cir. 1986); *Power Test Petroleum Distributors, Inc. v. Calcu Gas, Inc.*, 754 F.2d 91 (2d Cir. 1985). The circuit courts agree that irreparable harm invariably results from the unauthorized use of a trademark. *Church of Scientology International v. Elmira Mission*, 794 F.2d 38, 43 (2d Cir. 1986); *Power Test Petroleum Distributors v. Calcu Gas, Inc.*, 754 F.2d 91, 95 (2d Cir. 1985); *see also Model Rectifier Corp. v. Takachiho International, Inc.*, 220 U.S.P.Q. 508, 510 (C.D. Cal. 1982), *aff'd.*, 221 U.S.P.Q. 502 (9th Cir. 1983); 2 J.T. McCarthy, *Trademarks and Unfair Competition* §30:18 (2d ed. 1984).

The Third Circuit's decision is correct and analyses sound and follows that of other circuit and district courts. The petition on this point should as well be denied.

CONCLUSION

In deciding respondent's motion for preliminary injunctive relief, the district court and Third Circuit applied familiar, settled principles. No controversial or otherwise certworthy principle of general importance is involved. There is no conflict among the circuits; prior controlling decisions of the Court were fully recognized and correctly applied by the district court and the Third Circuit.

The Petition for Writ of Certiorari should be denied.

Respectfully submitted,

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DATED: October 17, 1986

APPENDIX

99TH CONGRESS
2D SESSION

S. 2614

To provide for parallel imports in order to continue to provide savings for United States consumers.

IN THE SENATE OF THE UNITED STATES

JUNE 26 (legislative day, JUNE 23), 1986

Mr. CHAFEE (for himself, Mr. ROTH, and Mr. RUDMAN) introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

To provide for parallel imports in order to continue to provide savings for United States consumers.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Price Competitive Products Act of 1986".

SEC. 2. Section 526 of the Tariff Act of 1930 is amended by adding at the end thereof the following:

"(f)(1) Nothing in this section shall restrict the importation or sale of foreign-made articles bearing a trademark or trade name identical with one owned and registered by a citi-

zen of the United States or a corporation or association created or organized within the United States when—

"(A) both the foreign and the United States trademark or trade name are owned by the same person or business entity;

"(B) the foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control; or

"(C) the articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the United States owner.

"(2) As used in paragraph (1), the term—

"(A) 'common ownership' means individual or aggregate ownership of more than 50 percent of the business entity; and

"(B) 'common control' means effective control in policy and operations and is not necessarily synonymous with common ownership.".

SEC. 3. Section 42 of the Act of July 5, 1946 (15 U.S.C. 1124), known as the Lanham Trademark Act, is amended by—

(1) inserting "(a)" before "Except"; and

(2) adding at the end thereof the following:

"(b)(1) Nothing in this section shall restrict the importation or sale of foreign-made articles bearing a trademark or trade name identical with one owned and registered by a citizen of the United States or a corporation or association created or organized within the United States when—

"(A) both the foreign and the United States trademark or trade name are owned by the same person or business entity;

"(B) the foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control; or

"(C) the articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the United States owner.

"(2) As used in paragraph (1), the term—

"(A) 'common ownership' means individual or aggregate ownership of more than 50 percent of the business entity; and

"(B) 'common control' means effective control in policy and operations and is not necessarily synonymous with common ownership.".